

Message Text

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ACTION SS-25

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C O N F I D E N T I A L OTTAWA 0618

EXDIS

SECSTATE PASS SECDEF, CJCS AND TREASURY

E.O. 11652: GDS

TAGS: MILI, CA, EAIR

SUBJ: LOCKHEED ASSURANCES TO CANADIAN GOVERNMENT

REF: (A) STATE 36369 (B) USDAO 115, 13 2300Z FEB 76 (C)

OTTAWA 0559

BEGIN SUMMARY. QUICK TRIP BY NEW LOCKHEED CHIEF HAACK SEEMS TO HAVE PUT TO REST FIRST CANADIAN FEAR ABOUT P-3 CONTRACT: THAT IT WAS ACCOMPANIED BY ILLEGAL OR UNETHICAL PAYMENTS. BUT CANADIAN MINISTERS LOOK LIKE THEY ARE BUILDING UP SECOND REASON FOR DELAY IN ALLEGED DETERIORATION OF LOCKHEED FINANCIAL POSITION AS RESULT OF "LOSS" OF JAPANESE P-3 CONTRACT. MEANWHILE, FAILURE OF GOC TO PROVIDE SOME \$300 MILLION IN FRONT-END FINANCING, AND PROBABLE NEED TO GO PUBLIC TO THE PARLIAMENT OR TO A CROWN CORPORATION TO GET IT, CAN BE A MAJOR OBSTACLE TO NAILING DOWN CONTRACT. LOCKHEED CAN AFFORD TO WAIT A LITTLE TIME (ITS FIRST QUARTER COMMITMENT WILL BE \$13 MILLION), AND SOME BREATHING SPELL MAY HELP EASE THE CONTRACT THROUGH THE CANADIAN CABINET. TO TRY TO CREATE SOME MOMENTUM REQUEST I BE AUTHORIZED TO EXPRESS VIEW TO MINISTERS THAT LOCKHEED IS TOO IMPORTANT TO US DEFENSE AND ECONOMY FOR USG TO PERMIT SITUATION TO OCCUR WHERE MAJOR CONTRACTS COULD NOT BE EXECUTED.

END SUMMARY.

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1. LOCKHEED TEMPORARY CHAIRMAN HAACK HAD 1 1/2 HOUR SESSION WITH DEFENSE MINISTER RICHARDSON THIS MORNING, FEBRUARY 16. MEETING AT LOCKHEED REQUEST BUT REPORTED HERE AS RICHARDSON INITIATIVE.

2. HAACK TELLS ME THAT HE GAVE RICHARDSON A CATEGORICAL PERSONAL ASSURANCE THAT LOCKHEED HAD MADE NO RPT NO ILLEGAL OR UNETHICAL PAYMENTS IN CANADA. HAACK ALSO ARGUED TO RICHARDSON THAT COMPANY WAS NOT COUNTING ON JAPANESE BUSINESS, WHICH ALTHOUGH A NET OF \$250 MILLION, WAS NOT RPT NOT INCLUDED IN REFINANCING PROJECTIONS. LOCKHEED HAS NOT ABANDONED HOPE TO GET JAPANESE CONTRACT, BUT ARGUED IT DOESN'T NEED IT TO FULFILL CANADIAN ORDER. HAACK AND RICHARDSON ALSO DISCUSSED FINANCIAL PROBLEM CREATED BY FAILURE OF GOC TO MAKE ADEQUATE PROVISION FOR FUNDING LRPA CONTRACT IN EARLY YEARS (FRONT-END SHORTFALL IS ESTIMATED AT \$300 MILLION IN FIRST THREE YEARS AFTER WHICH SURPLUS FINANCING WOULD BE AVAILABLE).

3. HAACK GROUP MET BRIEFLY WITH FINANCE MINISTER MACDONALD; WITH SENIOR OFFICIALS AT SUPPLY AND SERVICES (IN ABSENCE OF MINISTER GOYER, WHO IS IN VANCOUVER); AND TRIED BUT WERE UNABLE TO MEET WITH INDUSTRY, TRADE, AND COMMERCE MINISTER JAMIESON.

4. FOLLOWING MEETING HAACK REPEATED BEFORE TELEVISION HIS CATEGORICAL DENIAL OF ILLEGAL OR UNETHICAL PAYMENTS TO CANADIANS IN CONNECTION WITH THE LRPA DEAL.

5. RICHARDSON ALSO APPEARED ON TELEVISION TO ACKNOWLEDGE THE ASSURANCES HE HAD RECEIVED THAT THERE WERE NO ILLEGAL OR ILLEGITIMATE PAYMENTS MADE IN CANADA BY LOCKHEED. BUT RICHARDSON, IN TACTIC OBVIOUSLY DESIGNED TO GIVE CANADA SOME MANEUVER ROOM, PUT HEAVY EMPHASIS ON CHANGES IN LOCKHEED FINANCIAL POSITION RESULTING FROM "LOSS" OF JAPANESE ORION CONTRACT. THIS DEVELOPMENT, RICHARDSON SAID, JEOPARDIZES LOCKHEED FINANCIAL STRUCTURE, AND REQUIRES FURTHER CLOSE EXAMINATION BEFORE CANADA DECIDES WHETHER OR NOT TO SIGN LRPA CONTRACT.

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6. COMMENT: INNER GROUP OF CABINET (PLANS AND POLICY COMMITTEE) IS SCHEDULED TO MEET ON LOCKHEED TOMORROW UNDER TRUDEAU CHAIRMANSHIP. NOT CLEAR PRECISELY WHAT ISSUES WILL BE BEFORE IT, BUT FOCUS MOST LIKELY TO BE ON VALIDITY OF LOCKHEED ASSURANCES ON NO ILLEGITIMATE PAYMENTS TO CANADIANS. CABINET COMMITTEE WILL ALSO NO DOUBT REVIEW DATA IT HAS FROM LOCKHEED, CANADIAN EMBASSY IN WASHINGTON AND OTHER SOURCES ON ABILITY OF LOCKHEED TO CARRY OUT CONTRACT

IN SPITE OF CURRENT TURBULENCE.

7. HOWEVER EVEN IF FULL CABINET, WHICH MAY TAKE UP LOCKHEED ISSUE IN PLENARY SESSION THURSDAY, CAN BE SATISFIED ON THESE TWO ISSUES, ABSENCE OF PROVISION BY CANADA FOR FINANCING IN FIRST THREE YEARS OF LRPA CONTRACT PRESENTS A CONVENIENT REASON FOR FURTHER DELAY AND POTENTIAL SUBSTANTIAL OBSTACLE TO EARLY ACTION. (LOCKHEED HAS BEGUN WORK ON BASIS OF LETTER OF COMMITMENT AND HAS ALREADY INVOICED GOC FOR WORK IN JANUARY AND FEBRUARY. HAACK SAID CUMULATIVE AMOUNT THAT WILL BE DUE BY MARCH 31 WILL BE ABOUT \$13 MILLION. LOCKHEED IS CONFIDENT IT CAN COLLECT THESE AMOUNTS EVEN IF CONTRACT NEVER SIGNED.) ACCORDING TO LOCKHEED OFFICIALS TWO SOLUTIONS HAVE BEEN TRIED:

(A) POTENTIAL EXPORT-IMPORT BANK FINANCING (LOCKHEED SAYS THAT EXIM BANK FORMER VICE PRESIDENT TUTINO ASSURED THEM THIS COULD BE CONSIDERED "IF THE CANADIAN GOVERNMENT WERE TO TELL THEM THAT THE CONTRACT DEPENDED UPON IT"; HOWEVER WHEN THAT POSITION WAS RELAYED BACK TO GOC, OFFICIALS HERE SAID SUCH AN APPROACH WOULD BE POLITICALLY EMBARRASSING TO OTTAWA AND THEY WERE NOT WILLING TO ADOPT IT; CANADIANS SUBSEQUENTLY BACKED OFF FURTHER APPROACHES TO EXIM);

(B) LOCKHEED BORROWING FROM PRIVATE BANKS ON BASIS GOC-GUARANTEED NOTES. (ROYAL BANK OF CANADA WAS WILLING TO PROVIDE MONEY ON THIS BASIS BUT GOC DISCOVERED THAT DND DID NOT HAVE AUTHORITY TO ISSUE GUARANTEES. POSSIBILITY OF HAVING A GOC CROWN CORPORATION UNDERTAKE BORROWING HAS NOT BEEN RULED OUT.)

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8. MAIN POINT OF FINANCING NOW IS THAT THERE MAY BE NO WAY CANADIAN GOVERNMENT CAN COME UP WITH IT WITHOUT PUBLICLY ACKNOWLEDGING ITS FAILURE TO PROVIDE ADEQUATE FUNDING EITHER BY GOING BACK TO PARLIAMENT FOR ADDITIONAL APPROPRIATIONS IN THE EARLY YEARS OR BY TURNING TO ONE OF THE CROWN CORPORATIONS FOR FINANCING. THIS POTENTIAL NEED TO GO PUBLIC ON THE FUNDING DEFICIT AT A TIME OF MAXIMUM POLITICAL PRESSURE ON LOCKHEED IN THE STATES AND WHEN LOCKHEED "BRIBES" ARE HEADLINE NEWS IN CANADIAN MEDIA WILL PROBABLY BE ANOTHER REASON FOR THE CANADIANS TO GO SLOW.

9. LOCKHEED IS OBVIOUSLY ON ITS OWN SO FAR AS ASSURANCE ON PAYMENTS TO CANADIAN OFFICIALS. USG CANNOT APPROPRIATELY ADD TO THOSE ASSURANCES; BUT IT NOW APPEARS THAT QUICK

TRIP BY HAACK MAY HAVE LAID TO REST MANY LOCAL FEARS
ON THIS SCORE. IN ORDER TO DEAL WITH CANADIANS' SECOND
FEAR (INABILITY OF LOCKHEED TO CARRY OUT CONTRACT), IT
WOULD BE USEFUL FOR ME TO BE AUTHORIZED TO EXPRESS VIEW TO
MINISTERS THAT LOCKHEED IS TOO IMPORTANT A PART OF US ECONOMY
AND DEFENSE STRUCTURE FOR USG TO ALLOW SITUATION TO OCCUR
IN WHICH CONTRACTS COULD NOT BE FULFILLED. SOONER I CAN GET
THAT INTO SYSTEM THE BETTER.

10. EVEN WITH THOSE ACTIONS, KEY VARIABLE TO BE
AFFECTED UP HERE MAY STILL BE FRONT-END FINANCING.
IF THAT CAN BE SOLVED, IT SHOULD BE POSSIBLE TO
CREATE SITUATION IN WHICH CANADIAN GOVERNMENT HAS
NO REASONABLE ALTERNATIVE BUT TO GO AHEAD AS ANNOUNCED.
MEANWHILE NATURAL INSTINCT OF POLITICIANS HERE WILL
BE TO GO SLOW AND CALL FOR REASSESSMENTS PENDING
WASHINGTON DEVELOPMENTS ON LOCKHEED.
ENDERS

NOTE BY OC/T: NOT PASSED ABOVE ADDEES.

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